GAP INC.

Gap Inc. First Quarter Fiscal 2026 Conference Call Prepared Remarks
May 28, 2026

Shirley Martin – Senior Director of Investor Relations, Gap Inc.

Good afternoon, everyone. Welcome to Gap Inc.'s First Quarter Fiscal 2026 Earnings Conference Call.

Before we begin, I'd like to remind you that the information made available on this conference call contains forward-looking statements that are subject to risks that could cause our actual results to be materially different.

For information on factors that could cause our actual results to differ materially from any forward-looking statements, please refer to the cautionary statements contained in our latest earnings release, the risk factors described in the company's Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 17, 2026, and other filings with the Securities and Exchange Commission, all of which are available on gapinc.com.

These forward-looking statements are based on information as of today, May 28th, 2026 and we assume no obligation to publicly update or revise our forward-looking statements.

Our latest earnings release and the accompanying materials available on gapinc.com also include descriptions and, where available, reconciliations of financial measures not consistent with Generally Accepted Accounting Principles. All market share data referenced today will be from Circana's US Apparel Consumer service for the 12 months ending April 2026, unless otherwise stated.

Joining me on the call today are our Chief Executive Officer, Richard Dickson, and Chief Financial Officer, Katrina O'Connell.

With that, I'll turn the call over to Richard…

Richard Dickson – Chief Executive Officer, Gap Inc.

Before we discuss our results for the first quarter, let me begin with a moment of remembrance for our co-founder Doris Fisher. Doris was a visionary and an extraordinary human being whose brilliance, quiet determination, and heart shaped everything from Gap Inc.'s indelible influence on fashion and retail, to philanthropy, to the San Francisco art scene. In Gap-speak, she was a true original. And she worked tirelessly to ensure that Gap Inc. always did more than sell clothes, which inspires our purpose today: we bridge gaps to create a better world.

On behalf of everyone at Gap Inc, I would like to extend our deepest condolences to the Fisher family, and ensure them that the legacy Doris and Don Fisher created in Gap Inc. will endure.

Now, transitioning to our results.

In the first quarter, we continued to execute on our strategic priorities, delivering progress across several key metrics. Comparable sales increased 2%, marking our 9th consecutive quarter of positive comps, as we once again grew sales across all income cohorts. As the value proposition of our brands continued to resonate, we gained market share, reflecting better product, better storytelling and building brand relevance. And we outperformed our gross margin outlook, reflecting continued rigor in execution.

Overall, at the company level, the quarter was in line with our expectations.

However, results at the brand level were more varied, reflecting both the different stages of their transformation and some brand-specific dynamics.

As I reflect on the quarter, with three of our four brands once again delivering positive comps, with standout growth at the Gap brand, we continue to demonstrate progress. Yet, we know some of our brands have greater potential, and we are taking action to unlock stronger performance, which I will discuss in more detail.

In parallel, we are also investing more intentionally in our future, as we build category adjacencies, like Beauty & Accessories, where we see a meaningful long-term growth opportunity, and capabilities, such as our Fashiontainment platform and Technology, to amplify how we connect with customers and increase productivity.

Lastly, we remain committed to being strong stewards of capital as we balance long-term investments with increased capital returns to our shareholders this year. This reflects the growing strength of our balance sheet and strong conviction in our long-term potential.

Katrina will share our updated guidance later during the call. Given the varied performance at the brand level, we are taking a moderated view of full-year revenue growth. At the same time, we are raising our outlook for earnings per share, reflecting continued financial and operational rigor. While we are not starting out as strongly as we anticipated, we are still early in the year. The teams are motivated to drive better results, and our goal will be to outperform.

Turning now to our detailed first quarter results by brand.

Let's start with Old Navy, our largest brand and the number #1 specialty apparel retailer in the country.

In the first quarter, Old Navy once again grew, with comp sales increasing 1% on top of last year's 3% comp growth.

As noted earlier, our strategic pursuit of key categories continued to deliver results, particularly across Active, Denim and Kids & Baby, all of which posted growth versus last year.

Old Navy maintained a Top 3 rank in Denim and Kids & Baby, and gained share in denim specifically, reinforcing our leadership in these categories. We were also the only brand in the Active category to maintain share within the Top 5, reflecting the attractive value proposition we continue to deliver.

We also had a number of compelling product announcements that tied into pop culture with the launch of Old Navy's second designer collaboration featuring award-winning Christopher John Rogers and a special Devil Wears Prada collection, capitalizing on growing buzz around the sequel.

Overall results for Old Navy were primarily impacted by the women's dress business, where in reviewing the season, we did not execute as effectively and as a result, customers did not respond to our assortment the way that we had intended.

Entering Q2, the seasonal women's dress business continues to underperform our expectations, with weakness visible across the broader seasonal product assortment as well.
The team has worked swiftly to address these factors, refocusing our efforts on sharper price points and stronger customer messaging to drive conversion for the seasonal categories. Once these changes began to take hold in mid-May, we saw some improvement, but we are carefully monitoring this and making continued adjustments.

While we are encouraged by the recent improvement, we also recognize that this level of performance does not reflect our full potential. There is a clear opportunity to do better, and we are working closely with the team to sharpen our focus and strengthen execution.

As we look ahead into the second half of the year, we have several building blocks in place that give me confidence in our ability to deliver continued improvement. We are seeing strength in Denim and Active, and we expect these key strategic categories to build in prominence in the second half of the year. We are also rolling Beauty out to the full store fleet by year-end. And, following a successful winter pilot, we are launching a first-of-its-kind partnership with Fanatics, the global leader in sports licensing.

Separately, as we continue to focus on elevating how the brand shows up to our customers, we are excited to announce the appointment of Michael Francis to the newly created role of Chief Customer Officer for Old Navy. Michael is a highly respected brand-builder in retail, best known for reshaping the brand experience and building culture-shaping moments at Target and Walmart, two of the largest retailers in the country. Throughout his career, he has consistently infused value apparel concepts with lifestyle, aspiration, and emotional resonance, redefining how customers engage with accessible fashion.

Michael's appointment marks an important step forward as we position Old Navy for its next chapter of building stronger, more meaningful relationships with our customers. In this role, Michael will help sharpen our customer strategy, deepen emotional connection with our audiences, and bring even greater cohesion and consistency to how we show up across every touchpoint and every season.

Now moving on to Gap…

Gap delivered an exceptional quarter. Comp sales increased 10% on top of a 5% comp last year. This marks the brand's tenth consecutive quarter of positive comps as we continued to lean into our heritage of big ideas and culturally relevant narratives to drive growth. As product, storytelling, and brand relevance continued to strengthen, we expanded our customer file, reflecting growing engagement across generations, and achieved our third consecutive quarter of reduced discounting.

As we continue to execute our reinvigoration playbook, it's incredibly encouraging to see its impact broadening across additional divisions and categories.

At the division level, strength in Women's and consistency in Men's drove the brand's performance in the first quarter, complemented by a notable return to growth in Kids & Baby, marking a meaningful milestone for the Gap brand. We're encouraged to see our focused turnaround efforts in Kids & Baby take hold as our amplification of destination categories through collections like My First Denim in Baby and trend-right fleece and denim offerings for kids, builds resonance.

By category, denim remained a key driver of growth in the first quarter, as our focus on delivering trend-right product drove another quarter of market share gains. In addition, we also saw strength in fleece, amplified by our “Sweats Like This” music video featuring GRAMMY-nominated singer Young Miko. The campaign significantly outperformed benchmark goals, generating nearly 1.5 billion press and social media impressions and strongly resonating with Gen Z audiences, with Gap trending on TikTok within 24 hours of launch.

Founded in 1969 as a brand selling denim and records, Gap has always lived at the intersection of fashion, music, and culture. That heritage came to life in a major way this quarter at Coachella — one of the world’s largest and most influential music and cultural festivals — through our iconic Hoodie House activation. The experience drove strong engagement, selling roughly 10,000 custom hoodies and generating over 300 million social media and press impressions. More importantly, it served as another powerful demonstration of Gap’s cultural influence, authenticity, and growing relevance with a new generation of consumers.

In the first quarter, we continued to reimagine Gap classics with product collaborations shaped by the distinctive creative lens of Harlem’s Fashion Row, Awake NY, and Victoria Beckham. With strong consumer response and engagement around the Victoria Beckham collection, we are excited about the momentum this multi-season collaboration can build in the seasons ahead.

Entering the second quarter, we are continuing the drumbeat of cultural relevance.
Earlier this month, we were thrilled to dress Kendall Jenner in a custom Gap Studio creation designed by Zac Posen at the Met Gala, showcasing the brand’s highest expression of style and craftsmanship on one of the world’s most iconic cultural stages.

As we continue to deliver strong product and storytelling, elevating our customer experience remains paramount. With strong results from the 2025 remodel program, we plan to remodel about 30 stores this year , bringing approximately 25% of the North America specialty fleet into the new concept by year end.

I’m proud of the Gap team for the consistency, creativity, and clarity with which they are executing the playbook. With strength broadening across divisions and categories, continued expansion of our customer file, and a growing presence in key cultural moments, Gap is truly building momentum, and we look forward to continuing that in the quarters ahead.

Moving onto Banana Republic.

Banana Republic continued to make solid progress in the quarter. Comparable sales increased 2%, reflecting the brand’s fourth consecutive quarter of positive comps. Men’s and Women’s performed well, reflecting more balanced growth across the business, with strength in key categories including pants and sweaters.

We continued to lean into Banana Republic’s heritage as a storytelling brand through the lens of the modern explorer. This came to life through a collaboration with The Explorers Club featuring an Archive

Reissue capsule, reimagining some of our most iconic styles from the early decades through a contemporary lens. The collection has generated strong engagement and accolades across social conversations, reinforcing Banana Republic's distinct brand positioning.

As you know, I have been leading Banana Republic through its "Fix the Fundamentals" stage as we conducted a search for the right leader. With the brand now delivering greater consistency, last week, we announced the appointment of Donald Kohler as the new President and CEO of Banana Republic. Donald has had an exceptional career journey spanning more than three decades, with transformative leadership roles across iconic brands such as Calvin Klein, Tommy Hilfiger, Burberry, Ferragamo and Diesel and including more than a decade at our very own Gap brand. Now, we are excited to welcome him back to our family. Donald's operational excellence combined with his natural instincts for great design, impactful merchandising and powerful storytelling, positions him strongly to lead Banana Republic's next chapter.

As I turn over the reins, I want to extend my personal thanks and gratitude to the team. They have done an outstanding job strengthening the brand over the past several years, and I am excited for what we can deliver with Donald's leadership.

Now turning to Athleta.

As we shared last quarter, 2026 is a rebuild year for Athleta.

Since Maggie joined as the President in August of last year, the team has been taking steps to strengthen the brand's foundation, restoring clarity to its brand purpose, repositioning talent and rearchitecting product and creative plans to better reflect how customers live, shop, and engage with the active category today.

As we continue to rebuild Athleta, we have been focused on clearing less productive legacy product. We made progress in the first quarter, however, this process is taking longer than anticipated, and put pressure on sales leading to a disappointing result. For the second quarter, we remain focused on clearing the inventory so that we can begin to transition towards a cleaner assortment that better represents our go-forward aspirations for the brand in the Fall.

As we have worked to clear, we have also been introducing new product at a smaller scale and have seen encouraging results. In the first quarter, our launch of the Journey travel collection in targeted locations saw a positive customer response, driving increased engagement and strong sell-through. We also saw momentum in new leg shapes across key franchises like our heritage Elation line. These early reads are helping to inform our product direction and where we are choosing to lean in further in the coming quarters.

While we recognize that it will take time for our actions to translate into an improved growth profile, Athleta remains an important brand in our portfolio, and we are focused on rebuilding it for long-term growth.

Now moving on to our investments.

For Beauty and Accessories, we are approaching 2026as a test and learn year, focused on deepening our customer engagement, capturing insights and leveraging our learnings to inform a confident build over time.

In Beauty, our efforts this year are centered on our two largest brands, Old Navy and Gap.

At Old Navy, as we have shared, we began piloting Beauty in the third quarter of last year in 150 select stores, engaging with our customers through various product assortments, pricing strategies and merchandising models to understand how best to meet them in their shopping journey. The pilot provided important learnings that we are applying as we roll Beauty out to the rest of the fleet during the second half of this year, with a path to scaling the category in 2027 and beyond.

At Gap, we're excited to relaunch fragrance this summer – celebrating heritage scents like Heaven and Grass with a modern expression through refreshed packaging, updated formulations, and elevated storytelling. This represents a step forward in rekindling Gap's iconic appeal in fragrance through a revitalized brand identity and product lineup.

Moving to accessories. This year, our focus is on Gap where we will be launching a collection in the Fall that embodies the brand's spirit of individuality. I'm energized by what I'm seeing in the product - it's elevated and delivers great quality at a great price - and we are excited to share the collection with our customers.

Now onto our platform capabilities.

Starting with our Fashiontainment platform. We see a broad opportunity across our portfolio to amplify our presence in moments that matter by bringing together fashion with music, sports and entertainment.

Sports in particular is an influential force shaping fashion and trends. Our exciting partnership with Fanatics is a great example of new ways we are tapping into this new arena and we will continue to explore additional opportunities tied to major global sporting moments.

In the first quarter, we also relaunched our loyalty program, "Encore," transitioning our house file of around 40 million customers from a traditional transaction-based program to a broader customer engagement platform.
Technology is another important capability we are investing in. We are a fashion company that is brand-led and intelligence-powered. The brands create the demand by executing on the reinvigoration playbook. Intelligence, enabled by data and AI, empowers our teams to make decisions that drive greater consistency and efficiency.

The most important place this shows up is in what we call product intelligence — how we design, how we buy, how we allocate, and how we replenish. We are leveraging technology and AI to help our teams make smarter merchandising decisions, improve inventory productivity, and drive the right value equation for our customers.

Another place this shows up in is the customer experience — making it easier to find the right product, feel confident in the fit, and discover what is new and relevant. This includes extending discovery through new AI-powered shopping partnerships, including our recently announced partnership with Google's Gemini.

We are also deploying AI across our internal operations to drive the productivity that funds our investment agenda without expanding our cost structure.

We look forward to sharing more details on our technology investments and platforms in the coming quarters.

In closing, first quarter results speak to continued progress in our transformation. Yet we know we need to deliver at higher levels of growth, and the teams are focused on executing to this.

At the same time, the fundamentals of our business remain strong, and the rigor we've instilled throughout the organization are enabling continued margin expansion, growing cash flow, and increased returns to shareholders this year.

I want to thank our teams for their resilience and dedication to achieving the full potential of our portfolio.

I will now hand the call over to Katrina to walk you through our financial results and 2026 outlook…

Katrina O'Connell – Chief Financial Officer, Gap Inc.

Thank you, Richard, and thanks everyone for joining us this afternoon.

In the first quarter, we extended our track record of sustained revenue growth. Operational and financial rigor, combined with our reinvigoration playbook, drove our ninth consecutive quarter of positive comps reinforcing the strength and durability of our transformation.

As Richard shared, this was a unique quarter for us as we navigated some variance in our brand performance with Gap brand delivering standout growth, Old Navy coming in slightly short of our expectations, Banana Republic staying the course and Athleta seeing a more challenging quarter.

Against this backdrop, I am proud of how the teams managed the quarter, adapting as needed to deliver on our objectives. We achieved our net sales goals, exceeded our gross margin expectations, and continued to optimize our cost structure, enabling us to build our brands in the quarter while simultaneously funding strategic investments in our long-term growth accelerators and capabilities. We also deployed capital strategically, investing back into the business while maximizing returns to our shareholders through a significant increase in share repurchases complemented by a meaningful dividend increase.

We are updating our outlook today to reflect slightly lower sales expectations for the year reflecting a moderated view of Old Navy. Our operating margin outlook remains unchanged, and despite the lower revenue projections, we are raising our earnings per share outlook, the details of which I will walk through shortly.

Before turning to the details of our results and outlook, I want to highlight that our first quarter and full-year 2026 adjusted SG&A, operating profit and earnings per share metrics exclude a $313 million legal settlement net gain and concurrent $50 million charitable donation that occurred during the first quarter. On a reported basis, both are included across these metrics.

Now onto our results.

Net sales of $3.5 billion increased 1% year over year with comparable sales up 2%. As I previewed last quarter, the spread between net sales and comparable sales was largely a result of lapping revenue recognized last year related to the structure of our credit card agreement.

By brand, Old Navy's net sales of $2 billion increased 1% year over year, with comparable sales up 1%. Old Navy continued to win in strategic categories including denim, active and Kids & Baby. This was partially offset by a weaker customer response to our Spring dress assortment.

Gap had a stellar quarter. Net sales of $796 million increased 10% year over year and comparable sales were up 10%, as the brand continued to demonstrate culturally relevant storytelling in destination categories, including denim, fleece and Kids & Baby.

Banana Republic's net sales of $431 million increased 1% year over year, with comparable sales up 2%. The brand delivered its fourth consecutive quarter of positive comps, with balanced growth across Men's and Women's fueled by continued elevation in merchandising and storytelling.

Athleta's net sales of $270 million decreased 12% versus last year, and comparable sales were down 11%. This was below our expectations as we work through legacy products while we look toward launching a stronger and more relevant assortment.

Let's continue to the balance of the P&L...

Gross margin of 40.5% declined 130 basis points versus last year, coming in ahead of guidance. Merchandise margins declined 100 basis points and ROD deleveraged 30 basis points. The 100 basis point decline in merchandise margins reflects an expected headwind from the net impact of tariffs of approximately 200 basis points, implying 100 basis points of underlying merchandise margin expansion. This was driven by strength and lower discounting at the Gap brand combined with better inventory management across the portfolio, partially offset by modest headwinds related to the credit card dynamic I previewed earlier. Higher fuel costs also had a slight impact in the quarter. AUR increased relative to last year across all brands as we continued to operate with discipline.

On a reported basis, SG&A was $972 million. On an adjusted basis, SG&A was $1.2 billion and 35.3% of net sales. As expected, the increase to last year was primarily driven by the timing of planned investments in key growth initiatives and capabilities, including the relaunch of our loyalty program, expansion of Beauty and Accessories teams, and continued investments in Technology and our Fashiontainment platform to modernize our brands and operations through next-generation capabilities.

First quarter reported operating margin was 12.7%. On an adjusted basis, operating margin was 5.2%, down 230 basis points compared to last year primarily reflecting the net impact of tariffs.

Reported earnings per share were $0.90. Adjusted earnings per share were $0.38 versus last year's earnings per share of $0.51.

Before I move on to the details of our cash flow and balance sheet, I would like to reiterate our capital allocation framework. Our approach remains balanced, leveraging our healthy balance sheet and robust cash profile to enhance long-term shareholder value.

Our first priority is investing in the business through high returning capital investments. First quarter capital expenditures were $135 million and for Fiscal 2026, we continue to expect approximately $650 million dollars in investments relating primarily to stores, technology, and supply chain.

Second, we believe in paying an attractive dividend that grows with net income growth. In the first quarter, we paid $63 million to shareholders in the form of dividends reflecting a 6% increase in our quarterly rate to $0.175 per share. Additionally, the Board recently approved a second quarter dividend of $0.175 per share.

And our third priority is focused on share repurchases. As previewed last quarter, we have evolved our approach to being more intentional in driving earnings accretion. Aligned with this principle, year-to-date we repurchased approximately $400 million worth of stock or approximately 16 million shares. Looking ahead, we have approximately $600 million remaining under our current authorization which we will continue to deploy opportunistically as we balance our capital priorities and annual objectives.

Now turning to cash flow and the balance sheet.

Our cash position remains strong. We ended the quarter with $2.6 billion of cash, cash equivalents and short-term investments on our balance sheet, an increase of 15% compared to last year. First quarter net cash from operating activities was $213 million, inclusive of the net gain from the legal settlement and concurrent charitable donation, and free cash flow was $78 million.

Disciplined inventory management resulted in end of quarter inventory levels flat to last year with units down. We continue to be rigorous in our approach to inventory and expect to operate in line with our principle of unit purchases positioned below sales.

Before I move onto our outlook, I want to thank our teams for their continued focus and resilience. The foundational rigor we have established is allowing us to operate with agility. And our healthy financial position is providing us with the flexibility to be thoughtful in our investments while remaining committed to increased capital allocation and enhanced shareholder returns.

Now onto our outlook.

Our guidance today reflects our commitment to delivering a third consecutive year of profitable sales growth, continued operating margin improvement, and robust free cash flow generation. As is typically our practice, we are taking a balanced approach, factoring in the visibility we have into the consumer and the broader macroeconomic and geopolitical environment in the near term, while also recognizing potential uncertainties going forward.

Before I share specifics on the second quarter and full-year, I would like to discuss our assumptions on tariffs across two areas – first, the benefit from lower tariff rates following the Supreme Court ruling in February and second, the potential refunds on tariffs incurred and paid for products landed in the U.S. before the ruling.

Let's start with the benefits related to lower tariff rates. Our full-year outlook shared in March reflected tariff rates under the IEEPA regime and assumed a roughly neutral net tariff impact on our profit and margins for the year, supported by substantial mitigation strategies we continue to deploy.

We are updating our assumptions today to reflect Section 122 tariffs at a 10% rate on goods received after February 24 through the July 24 deadline. For the remainder of the year, we've assumed tariff rates revert back to IEEPA-level rates incorporated in our original plan. We maintain this assumption based in part on comments from the administration indicating an intention to reimpose higher tariff rates following the expiration of Section 122, potentially at levels comparable to those implemented under the IEEPA regime.

Tying these pieces together, we now expect approximately $80 million or 50 basis points of year-over year net tariff relief to our gross and operating margin relative to our prior outlook for tariffs to be net neutral for the year. Given the timing of receipts, this benefit is expected to be weighted toward the second and third quarters.

We are taking a balanced and prudent view in assessing how we factor this into our outlook for the company as we consider our plans in the context of three factors: 1) The consumer, 2) The promotional environment and 3) Fuel cost pressures tied to the geopolitical environment.

From what we can see today, the consumer remains resilient, and while we continue to monitor their behavior, at this time, our outlook does not assume any meaningful shift over the balance of the year. The promotional environment thus far has remained rational, yet we are keeping a close watch on the extent to which companies may reinvest this year's tariff upside into pricing actions. Fuel costs are elevated and we continue to monitor geopolitical conditions and its potential implications across the broader operating environment.

Therefore, on a full-year basis, we are reserving the tariff relief as added flexibility to navigate the year, with approximately half of the $80 million benefit serving as a buffer against sustained elevation in fuel costs, and the remaining half reserved for potential pricing investments should the promotional environment intensify.

Should fuel costs retreat meaningfully from current levels or should the promotional environment remain rational, there would be upside to our outlook. Additionally, if the administration does not reimpose higher tariff rates upon the expiration of Section 122, or if tariffs instead return to historical baseline levels, this would be another source of upside, all else equal.

On the topic of tariff refunds, we're monitoring for the potential recovery of previously paid IEEPA tariffs where Gap is the importer of record. Applications are currently being accepted in phases. While we are encouraged by the progress we are seeing in the industry and hopeful we will have success, at this point, recognizing we have not been part of the first phase of the review process, we do not have certainty in the outcome and are not factoring in any benefits of a potential refund in our outlook today.

Turning to the specifics of our outlook for fiscal 2026.

Beginning with net sales. As noted in our press release, we now expect full-year net sales growth of 1% to 2%. The revised outlook primarily reflects a more tempered view of Old Navy's performance based on trends observed at the start of the year.

We now expect Old Navy comparable sales to be flat to up 1% for the full year. On a 2-year comp basis, our outlook reflects an acceleration in the back half as Spring and Summer categories become a smaller part of the revenue mix and denim and active become more important, and as some of our new growth initiatives such as Beauty and Sports licensing begin to roll out more purposefully. As Richard noted, while this is our current outlook, the teams are working hard to deliver better.

As it relates to the balance of the portfolio, we are adjusting the complexion of our growth expectations. With building momentum at Gap brand, we now anticipate full-year comps in the high-single digits. At Athleta, our outlook reflects a slower rebuild with the second quarter trending similar to the first quarter. And we continue to expect Banana Republic to post another year of comp growth, consistent with our prior outlook.

Turning to gross margin...

We are maintaining our outlook for full-year gross margins to be flat to up slightly to the prior year. We continue to expect merchandise margin expansion. With regards to ROD, we now expect deleverage of approximately 50 basis points on the year given our lower revenue outlook.

As noted earlier, while the change in our tariff assumptions is expected to result in 50 basis points of net tariff relief, we are reserving this benefit as we account for potentially sustained fuel inflation and also embed pricing flexibility to react to potential changes in the competitive environment.

Moving on to SG&A. As we establish ourselves as a high performing company, our standard is to continuously focus on driving improvement to our cost structure. For the full-year, we continue to expect Adjusted SG&A as a percentage of sales to be roughly flat year over year. This includes $150 million in cost savings as we enhance our efficiency and effectiveness, a portion of which will go towards managing inflation with the remaining funding our growth accelerator initiatives. As I mentioned last quarter, there is some nuance to the quarterly cadence of the investments that will cause adjusted SG&A to continue to deleverage into the second quarter, before leveraging in the second half. The improvement in the second half primarily reflects two factors that we will begin to lap: First, spending on strategic initiatives that began in the second half of last year, and second, higher incentive compensation expense that was weighted towards the third and fourth quarter last year.

Taking this all into consideration, we continue to expect an Adjusted operating margin of 7.3% to 7.5% for the full year compared to 7.3% last year.

At the same time, we are raising our outlook for full year Adjusted EPS to $2.30 to $2.40 reflecting favorability on interest income, tax and share count. Our updated earnings outlook reflects growth in the range of 8% to 12% to last year.

Interest income is now expected to be approximately $25 million. We expect a tax rate of approximately 25%. And with the repurchase activity completed year-to-date, we anticipate a weighted average share count of approximately 375 million, down approximately 2% to last year.

Now, let me turn to our outlook for the second quarter of fiscal 2026.

Quarter-to-date, the portfolio is trending largely in line with Q1 performance with the exception of Old Navy where, as Richard noted, we experienced a slow start, but are seeing improvement with the changes the teams are driving. With this in mind, we expect net sales in the second quarter to be flat to down 1% year-over-year, with comps at Old Navy projected down in the low-single digits. We expect the spread between comp and net sales to be roughly similar to the first quarter, largely reflecting the same credit card dynamic we experienced in Q1, after which we expect comp sales and net sales to track more closely for the balance of the year.

We expect second quarter gross margin to be about flat to down 50 basis points compared to last year's gross margin of 41.2%. This reflects continued merchandise margin expansion, with ROD deleverage of approximately 80 basis points. Our outlook for merchandise margins incorporates net tariff relief of approximately 30 basis points combined with underlying margin expansion driven by expansion at all brands outside of Old Navy where we expect higher promotions as we clear seasonal product. We will also experience slight headwinds from the credit card dynamic, and we expect a continued slight impact from higher fuel costs.

Last, we are planning for SG&A as a percentage of net sales to deleverage approximately 110 to 120 basis points compared to last year, which reflects the timing of the growth investments I spoke to earlier.

In closing, while our outlook reflects our best view of the business today, as Richard noted, we are always striving for better. Our foundation remains strong, rooted in disciplined financial and operational rigor, and a proven reinvigoration playbook. Our teams are operating with agility and a mindset of continuous improvement. Overall, this gives me confidence in our trajectory moving forward, and in our ability to continue creating sustainable value both for our customers and shareholders.

With that, we'll open the line for questions. Operator?